

Digest of a Performance Audit of Residential Tax Assessment Practices

This report discusses how homes are assessed for property tax purposes and the processes established to insure that the tax burden is equitably distributed. In general, county assessors and the Tax Commission have made significant improvements in recent years that make home values more accurate and property taxes more equitable. While both county assessors and the Tax Commission are commended for the progress they have made, this report focuses on policy issues that remain and possible additional improvements. The Tax Commission's Property Tax Division (PTD) has already made some of the changes recommended in the report.

The counties and the state share the responsibility for assessing homes according to fair market value. County assessors use relevant property characteristics and sales data to value homes. To insure that the assessment of properties is just and equal, the Tax Commission's Property Tax Division (PTD) helps county assessors and monitors their performance. If a county's assessment practices or results are inadequate, the Tax Commission is required to issue orders designed to correct the problem.

Our audit objective was to evaluate local property tax valuation practices to determine if they are fair and consistent with statutory provisions. Fairness in property taxes is an important but difficult concept to evaluate. Property tax may be the state's most controversial and least popular tax. Some taxpayers view it as an unfair tax that should be eliminated, a concept that was studied during the 1996 legislative interim by a Tax Elimination Blue Ribbon Committee. Our audit scope did not include a review of the general concept of property taxes, and we did not evaluate the fairness of property tax laws. Instead, we reviewed the fairness of the process used to set property values and the fairness of results achieved as measured by the PTD's annual assessment-sales ratio study. We reviewed how county assessors value residential properties and how homeowners may challenge values they feel are too high. In addition, we reviewed how the Tax Commission assists assessors, monitors assessor performance, and assures that property owners throughout the state pay their fair share, but no more, of property taxes. We also investigated a specific allegation of favoritism and targeting in Salt Lake County assessments. Our audit work included visits to 10 counties plus telephone interviews and a written survey sent to all assessor offices.

The following summaries describe the major findings and conclusions of the report:

Further Improvement in Assessment Practices may Require Additional Resources. In recent years the Legislature has clarified assessor responsibilities to periodically review property characteristics and annually update values based on current market data. In response, county assessors have significantly improved their practices to more accurately value property. Despite recent improvements, not all county assessors' valuation practices meet statutory requirements. At least 11 counties delay the annual value update until the

following year because they rely on the PTD's assessment-sales ratio study information to determine appropriate adjustment factors and that information is not available in time to develop factors for the current tax year. In terms of the collection and maintenance of property data, we found that counties vary in the degree to which they have completed the mandatory cyclical review of property characteristics. We also found that the 5-year plans required by the **Utah Code** do not play a meaningful role in assessment practices, and that some counties do not adequately inform property owners of upcoming property characteristic reviews. With regard to computer-assisted appraisal systems used to determine values, many counties have found their systems are too outdated to meet current needs and are upgrading their systems. Davis, Weber, and Utah Counties will have a difficult transition from their present cost-based systems to planned sales-comparison systems and will need to obtain the necessary data and technical expertise to be successful. For smaller counties that continue to rely on outdated computer systems, the PTD should continue to provide assistance as it has in the past. In addition, even though the PTD does not assist with funding, we feel it should advise counties planning the purchase of new systems in order to help counties use their resources wisely and promote consistency in statewide valuation practices.

If the Legislature wants better assessor performance, it may need to insure that assessor offices receive more of the state assessing and collecting (A&C) levy established to fund property assessments. Some assessors report that a lack of qualified staff and other resources resulting from inadequate funding makes it difficult or impossible for them to fulfill their legislatively mandated responsibilities. For example, 22 assessors report they have fewer appraisers than needed according to a national standard. Our analysis shows wide variances among counties in the staffing and funding resources available to value locally assessed property. The disparity in resources is a concern because it may affect the uniformity of property valuations and thus the fairness of taxes among and within counties. Although the Legislature has established a mechanism to fund property valuation, in some counties relatively little of the A&C funding goes toward property valuation. Some counties use A&C funds on questionable programs such as building inspection and planning commissions. Because these programs would continue to be needed even if property taxes were eliminated, they may not meet the intent of the A&C levy. If the Legislature wants to improve valuation practices it should take steps to insure that assessors receive more of the taxes levied to fund accurate property valuation.

Role of Tax Commission Needs Clarification. Some aspects of the Tax Commission's role in equalizing property assessments need clarification. According to the **Utah Code**, the Tax Commission is responsible to insure that "*assessments of property are just and equal, according to fair market value, and that the tax burden is distributed without favor or discrimination.*" Equalizing values enhances the fairness of property taxes both among and within counties. There are three principal ways that the Tax Commission and the PTD insures assessed values are equitable.

First, the PTD provides training, assistance, and general supervision to county assessors and their staff. While generally effective, some improvements are possible in the assistance the PTD provides to county assessors. We recommend the division promptly share sales data and

preliminary assessment-sales ratio analysis with assessors and that county representatives apportion their time among counties more appropriately.

Second, the PTD evaluates the counties' assessment performance and valuation practices. The division has made significant improvements in the assessment-sales ratio study that evaluates assessment performance. The report identifies additional items the PTD should consider, such as testing the representativeness of samples and making greater use of realty data, as it continues to refine its study. We also discuss the need for a more comprehensive review of assessor practices, and the important role they play to insure assessed values are equitable and approximate fair market value.

Third, when necessary the Tax Commission orders counties to adjust values or complete specific assessment activities. It is this third and most challenging responsibility of ordering counties to take actions that we feel may need additional clarification. Our review of the equalization process raised several difficult policy questions. First, should factoring orders equalize values for the current tax year? Currently, orders are issued too late to be applied in the year for which a problem is measured so taxes are based on unequalized values. Possible changes to achieve current year equalization could have far reaching effects and would need thorough study. Second, how broadly should existing laws and rules directing the issuance and enforcement of orders be interpreted? Currently, the Tax Commission takes a more pragmatic approach than seems to be required by the **Utah Code** and **Administrative Rules**. For example, more limited orders may be issued because an assessor may not have the resources to complete all needed activities and the PTD may focus on resource needs rather than assessment activities. We agree that the commission should consider the practical effect of its orders, however, when practical considerations override strict compliance with laws or rules the reasons should be documented. Third, how should compliance with orders be tested? Currently, the PTD does not verify compliance with its reappraisal rule, but relies on an indirect statistical verification.

Assessment and Appeal Practices in Salt Lake County are Fair. We found no merit to allegations of unfair and improper practices in how homes are assessed and how appeals are processed in Salt Lake County. First, it was alleged that during the 1991-1994 period the Salt Lake County Assessor's Office engaged in favoritism by reducing assessments of prominent homeowners and in targeting by increasing the assessments of other homeowners. We found that the Assessor's Office calculates property values according to an objective methodology and is committed to the concept of uniformly assessing each property on the basis of fair market value. Additionally, our review of Avenues area properties whose values changed during the 1991-1994 period showed the changes were due to ongoing programs applicable to all taxpayers and were not the result of special treatment. While we do not believe the assessor's staff has favored or targeted selected individuals, we feel new procedures for making changes to property records and reviewing appeals are needed.

Second, it was alleged that the appeals process was unfair because hearing officers were unqualified. The Salt Lake County appeals process is fair because it meets minimum standards established by Utah law and national professional organizations. Although most

Salt Lake County hearing officers are not professional appraisers, they are competent individuals who receive training in appraisal techniques. While the county's appeal system is fair, we feel the Assessor's Office could improve its service to taxpayers by establishing practices that help homeowners better understand how their home values are determined. Better public information also might reduce the number of formal appeals the county receives.